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RUEHNE/AMEMBASSY NEW DELHI 3592
RUEHLO/AMEMBASSY LONDON 8410
RUEHBUL/AMEMBASSY KABUL 8951
RUEHKP/AMCONSUL KARACHI 0110
RUEHLH/AMCONSUL LAHORE 5855
RUEHPW/AMCONSUL PESHAWAR 4641
RUMICEA/USCENTCOM INTEL CEN MACDILL AFB FL
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SUBJECT: NATURAL GAS PRICE HIKES TURN BACK REFORMS

¶1. (SBU) SUMMARY: By turning back previous reform measures, the Government of Pakistan (GOP) has created new categories and sub-categories of natural gas consumers with variable pricing rates. With over 95 percent of all domestic automobiles fueled by compressed natural gas (CNG), increases at the pump are hitting an already cash poor public particularly hard. END SUMMARY.
DOMESTIC NATURAL GAS CONSUMPTION
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¶2. (U) Pakistan is one of the largest natural gas consumers in the world and domestic consumption accounts for 50 percent of Pakistan's total energy use. Pakistan consumes all of its domestic gas production and domestic needs mandate expanded production. Only 60 percent of Pakistani households currently have electricity, and only 18 percent have access to pipeline gas for heating. Over 95 percent of all automobiles in Pakistan are fueled by CNG. There are approximately 2,060 CNG stations operating in the country to fuel the 1.7 million light vehicles that have been converted to CNG. Of these, 1,590 stations are owned by private individuals and the remainder are operated by oil manufacturing companies.

¶3. (U) Energy demand in Pakistan is expected to increase 250 percent over the next 20 years. To meet expected demand, electrical generating capacity must grow by 50 percent from 20.4 gigawatts in 2008 to 30.6 gigawatts in 2010. Pakistanis have begun to feel the energy crunch more than ever as blackouts have increased across the country and exceed 15 hours per day in some areas.

DIFFERENTIATION IN PRICE STRUCTURES: CREATING CONFUSION
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¶4. (U) The GOP divides natural gas consumers into six main categories: industrial, commercial, domestic, fertilizer, transport and power. The GOP claims that the differing tariff structure for each category of customers is set according to economic priority. The natural gas tariff in Pakistan is progressive in nature and rises with higher consumption. Some of the six categories are further divided into sub-categories. For instance, domestic consumers are now divided into seven sub-categories.

¶5. (U) Domestic: The poorest "lifeline" consumers, using less than 50 cubic meters per month, are subsidized in sub-category one and charged the lowest rates. According to an Oil and Gas Regulatory Authority (OGRA) notification issued on June 30, the number of sub-categories for domestic users were increased from five to seven to enable the GOP to charge more from upper middle class consumers using above 200 cubic meters per month. No increase was announced for domestic users in the first three sub-categories. Domestic

consumers in the fourth through seventh sub-categories will see a 31 percent price increase in their monthly bills. Mr. Qureshi admitted that only 0.5 million domestic consumers out of the total 5.4 million would be effected by the gas price hike and therefore the domestic rate increase will not significantly impact government coffers.

¶6. (U) Transport: The price increase has pushed the retail price of CNG, used in the majority of motor vehicles, to Rs 47.25-48.80 per kilogram. Consumption for most motor vehicles is nine kg for the average tank and requires more frequent fill ups than gas fueled cars. CNG prices were raised a day after the government also raised petroleum and diesel prices by 10 percent and kerosene prices by 30 percent.

¶7. (U) Commercial: The rate has been raised from Rs. 283.05 to Rs 370.80 per million British Thermal Units (MMBTU). The minimum monthly charges for commercial consumers have been fixed at Rs 1,750.44, up from Rs 1336.21. Commercial consumers have been defined as cafes, bakeries, milk shops, tea stalls, canteens, barber shops, laundries, tandoors (gas ovens for baking staple chapattis), cinemas, clubs, theatres, clinics, maternity homes and private offices.

¶8. (SBU) As an example of the randomness of the price increases and category creation, a special commercial section has been introduced for chapatti tandoors. Under the category, consumers using up to 300 cubic meters will be billed in accordance with the domestic mechanism whereas those consuming above 300 cubic meters will be billed at normal commercial rates.

¶9. (U) Industrial: The sale price for natural gas to all industrial

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consumers, including the textiles and apparel sector, has been increased from Rs 251.55 to Rs 329.54 per MMBTU, showing an increase of 31 percent. The sale price for CNG has been increased from Rs 291.36 to Rs 388.32 per MMBTU, a rise of 33.2 percent.

¶10. (SBU) Most of the textile sector converted to self generating electricity using natural gas due to the gross inefficiencies in Pakistan's electric power generation and transmission system. Industrialists complain that they are being unfairly taxed with these price increases since they were forced to individually bear the expense of creating their own power due to the inefficiency of Pakistan's electricity production. They further note that Pakistani textile competitiveness will be further eroded by these natural gas increases and that Pakistan has its own domestic supply of natural gas so the price should not be so high for domestic industry.

¶11. (U) Other Miscellaneous Increases: The tariff for ice factories has been increased to Rs 370.80 per MMBTU from Rs 283.05, an increase of 31 percent. The gas tariff for the cement industry has been increased to Rs 428.89 per MMBTU from Rs 335.67, an increase of 28 percent.

COMMENT

¶12. (SBU) Comment. It is unclear how collection of these differentiated tariff rates will be possible. There are already reports that commercial users located in and around residential areas are switching to illegal domestic connections. Likewise, domestic consumers are trying to conceal consumption by getting more than one gas meter. The GOP does not have mechanisms to verify or prevent this theft.

¶13. (SBU) Comment continued. However well intended, the expansion of sub-categories and differentiations in pricing schemes for consumers drives Pakistan further from the reforms to put market pricing mechanisms in place. These reforms were intended to have a single market based pricing mechanism, driven by the marginal cost of production, for all users of natural gas. These measures are a regression from previous commitments with the World Bank, made by then Prime Minister Shaukat Aziz. Elimination of the sub-categories was in the "first phase" of reform plans. End Comment.

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